

# **Audit**



# **Report**

OFFICE OF THE INSPECTOR GENERAL

UNCATALOGED MATERIAL AT RESEARCH,  
DEVELOPMENT, TEST AND EVALUATION  
INSTALLATIONS

Report No. 97-183

June 30, 1997

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**Department of Defense**

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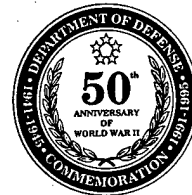
### **Acronym**

RDT&E

Research, Development, Test, and Evaluation



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884**



June 30, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Uncataloged Materiel at Research, Development, Test,  
and Evaluation Installations (Report No. 97-183)**

We are providing this audit report for review and comment. We conducted the audit in response to a suggestion from the Office of the Deputy Assistant Secretary of the Air Force (Contracting). Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Comments from the Office of the Under Secretary of Defense (Comptroller) were received too late to be considered in preparing the final report. The Director, Defense Research and Engineering did not provide comments on the draft report. Therefore, we will consider the comments from the Office of the Under Secretary of Defense (Comptroller) as management's response to the final report, unless the Under Secretary submits additional comments; and we request that the Director, Defense Research and Engineering, provide comments on the final report by August 29, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman A. Schraden, Audit Program Director, at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Thomas D. Kelly, Audit Project Manager, at (215) 737-3886 (DSN 444-3886) (tkelly@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed on the inside back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 97-183  
(Project No. 5LD-5050)

June 30, 1997

### Uncataloged Material at Research, Development, Test, and Evaluation Installations

#### Executive Summary

**Introduction.** This audit was performed as a result of a suggestion from the Office of the Deputy Assistant Secretary of the Air Force (Contracting). The Military Departments centrally manage most material they acquire; it is cataloged and usually bought repetitively by inventory control points and stocked at depots and installations. The Military Departments are to acquire uncataloged material for specific needs on a one-time or nonrecurring basis. For research, development, test, and evaluation work, uncataloged material is to be consumed during fabrication or testing. Within the Military Departments, 86 installations host organizations that perform research, development, test, and evaluation work. We reviewed the stockage of uncataloged material at six of the installations, two from each Military Department.

**Audit Objectives.** The audit objective was to evaluate the propriety of the Military Departments' stocking of uncataloged material at research, development, test, and evaluation installations. We also reviewed the adequacy of the Military Departments' management control programs as they applied to the stated objective.

**Audit Results.** The Military Departments improperly stocked uncataloged material for research, development, test, and evaluation work. The six installations we reviewed kept uncataloged material on hand dating from 2 years to more than 30 years after projects were completed. The military installations did not fully consume the material in fabrication and testing, and retained it without any apparent need and without sufficient safeguards.

- o At two installations (Navy and Air Force) and part of another (Army), accounting and property accountability records were not maintained and no estimates could be made of the quantities and dollar amounts of material on hand.

- o At one installation (Army), property accountability records were maintained without values but material custodians estimated that \$60 million of material was on hand.

- o At one installation (Navy), accounting and property accountability records were maintained listing \$50.5 million of material on hand, although our inventory of high-dollar-valued items reduced the listed amount to \$38.3 million.

- o At one installation (Air Force) and part of another (Army), no accounting and property accountability records were maintained but recent housecleaning initiatives resulted in \$167.3 million of uncataloged and some cataloged material being turned in for redistribution, sale, or disposal.

The Army Communications-Electronics Command is commended for identifying a problem with uncataloged material and correcting the majority of the problem in FY 1994. Without records, we could not accurately estimate the dollar amounts of

uncataloged material that have been improperly stocked at the six installations reviewed. However, based on dollar estimates by material custodians and recent turn-ins, coupled with the results of a recent review by the Naval Audit Service at seven other installations, over \$1 billion of material (acquisition value, the sales value would be substantially less) was improperly stocked at 13 military installations that perform research, development, test, and evaluation work. We do not have an estimate of potential uncataloged material at the 73 installations performing research, development, test, and evaluation that we did not visit. The large accumulation of unneeded and unsafeguarded material at military installations means that unnecessary storage and obsolescence costs were incurred. In addition, assets worth millions of dollars were left off financial statements and were not adequately protected.

The management controls we reviewed were inadequate because of the Military Departments' weakness in safeguarding and justifying stocked uncataloged material.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller), direct the Military Departments to comply with volumes 1 and 4 of the DoD Financial Management Regulation in protecting and recording, controlling, and reporting uncataloged material as assets; and until reasonable compliance is attained, disclose on annual financial statements the accounting weaknesses and potential impact. We recommend that the Director, Defense Research and Engineering, in coordination with the Military Departments, establish management controls over uncataloged material as well as substantiate that the material is required and can be adequately safeguarded.

**Management Comments.** The Army stated that it is disposing or transferring the excess material cited in the report and plans to assign a management control number to munitions that have not been assigned a national stock number before issuing a research, development, test, and evaluation purchase request. Comments from the Office of the Under Secretary of Defense (Comptroller) were received too late to be included in the report. The Office of the Under Secretary generally agreed to direct the Military Departments to comply with volumes 1 and 4 of the DoD Financial Management Regulation. The Director, Defense Research and Engineering, did not comment on a draft of this report. See Part I for a summary of management comments and Part III for the complete text of management comments.

**Audit Response.** We commend the Army for taking action to eliminate excess material. Its action to include the unit price of the material in Army records should improve accountability of material at research, development, test, and evaluation centers. Comments from the Under Secretary of Defense (Comptroller) will be considered as the response to the final report, unless additional comments are provided by August 29, 1997. We also request that the Director, Defense Research and Engineering provide comments on the final report by August 29, 1997.

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## **Part I - Audit Results**

## Audit Results

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### Audit Background

This audit was performed as a result of a suggestion from the Office of the Deputy Assistant Secretary of the Air Force (Contracting). The Office of the Deputy Assistant Secretary was concerned that installations were accumulating uncataloged material unnecessarily, resulting in inefficient use of storage space and funds.

The Military Departments, through inventory control points, centrally manage most material. The management process begins with cataloging, which is described in DoD Manual 4130.2-M, "Federal Catalog System Policy Manual," March 1995. Cataloging uniquely identifies an item with a number and descriptive data which, in turn, provides a means for centrally monitoring and controlling the number of items that DoD acquires, stocks, and issues. By having visibility over the supply status of cataloged material, inventory control points can redistribute excess items in lieu of procuring new items. Uncataloged material is not centrally managed. Therefore, uncataloged material has no visibility outside the installation.

Accordingly, military installations are to acquire uncataloged material for specific needs on a one-time or nonrecurring basis. One of the specific needs that can be satisfied with uncataloged material is a research, development, test, and evaluation (RDT&E) project. The material is to be consumed during fabrication or testing. If material is left over and still needed, then installations are to safeguard the material in accordance with prescribed DoD accounting policies. Within the Military Departments, there are some 86 installations that host organizations involved in RDT&E work.

### Audit Objectives

The audit objective was to evaluate the propriety of the Military Departments' stocking of uncataloged material at RDT&E installations. We also reviewed the adequacy of the Military Departments' management control programs as they applied to the stated objective. See the finding for a discussion of the material management control weaknesses we identified and Appendix A for a discussion of the scope and methodology and of our review of the management control programs.



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## **Stockage of Uncataloged Material**

The Military Departments improperly stocked well over \$1 billion of uncataloged material for RDT&E work. We visited two installations from each of the Military Departments and found uncataloged material on hand for 2 to more than 30 years; the material had not been consumed by fabrication and testing work and was retained without apparent need and sufficient safeguards. The large accumulation of improperly stocked material occurred because the Military Departments did not follow prescribed DoD accounting policies, which require that adequate management controls be implemented for retaining and safeguarding needed assets and for disposing of excess material. As a result, storage and obsolescence costs were incurred unnecessarily, and assets worth millions of dollars were left off financial statements and not adequately protected.

## **DoD Accounting Policies**

DoD Components, such as the Military Departments, are required to safeguard material in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, May 1993, and volume 4, January 1995.

**Guidance Contained in Volume 1.** Volume 1, "General Financial Management Information, Systems, and Requirements," governs financial management by establishing requirements, principles, standards, procedures and practices necessary to comply with statutory and regulatory demands applicable to DoD. One of the features of volume 1 is that it includes guidance on what constitutes a material deficiency in an accounting system. Volume 1 defines material deficiency as a departure from a key accounting requirement if the departure could result in loss of control of over 5 percent or more of the measurable resource for which the accounting system is responsible. Volume 1 establishes 13 key accounting requirements that systems must reasonably comply with to meet standards established by the General Accounting Office, the Office of Management and Budget, the U.S. Treasury, and the DoD. The second key accounting requirement deals with system controls over property. It specifies that:

- o an accounting system must account in quantitative and monetary terms for the procurement, receipt, issue and control of plant property, equipment, inventory, and material.

- o an inventory accounting system must entail control over the acquisition and issuance of materials, the comparison of physical inventories and records, the planning for procurements and utilization, and effective custody of the materials.

## **Stockage of Uncataloged Material**

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o a property management system must include accounting controls over inventory ledgers that identify the item, acquisition date, cost, location, and other information. Subsidiary property records are to be reconciled periodically to general ledger accounts. Physical controls are to include assigning accountability for inventory to specific individuals, placing physical safeguards on inventory, and periodically reconciling physical inventories to accounting records.

Overall responsibility for ensuring that key accounting requirements are achieved lies with the Under Secretary of Defense (Comptroller), who is responsible for overseeing all financial management activities relating to the programs and operations of DoD.

**Guidance Contained in Volume 4.** Volume 4, "Accounting Policy and Procedures," provides that all tangible DoD assets shall be continuously accounted for from acquisition to disposition. Tangible assets are to be controlled by both an accounting system and property accountability records. The accounting system identifies the dollar value of property in summary terms. Property accountability records provide detailed information on quantities and unit prices that underlay the summary figures reflected in the accounting system. The accounting of an asset in general ledgers and property accountability records depends on the asset's acquisition cost and intended use. Most material acquired for RDT&E projects is to be recorded in general ledger accounts as either fixed assets (high-dollar-valued real property and personal property with a useful life) or operational material and supplies when received at an installation, and as an expense when issued to be used in a project. Material not used in RDT&E projects is to be recognized as fixed assets or operational material and supplies. In addressing fixed assets, the regulation specifically states:

Property, plant, and equipment acquired or constructed for R&D [Research and Development] testing activities normally shall be expensed when acquired. When the assets can be used for other purposes after the original R&D work is completed, the remaining value of the assets shall be capitalized by reducing the expense accounts to reflect the remaining acquisition cost of the assets to be capitalized.

Volume 4 also provides that uncataloged material and supplies held in stock for RDT&E projects should not exceed the amount expected to be used within 30 days unless justifying documentation supporting a supply in excess of 30 days is developed and maintained for review.

### Stocking Uncataloged Material

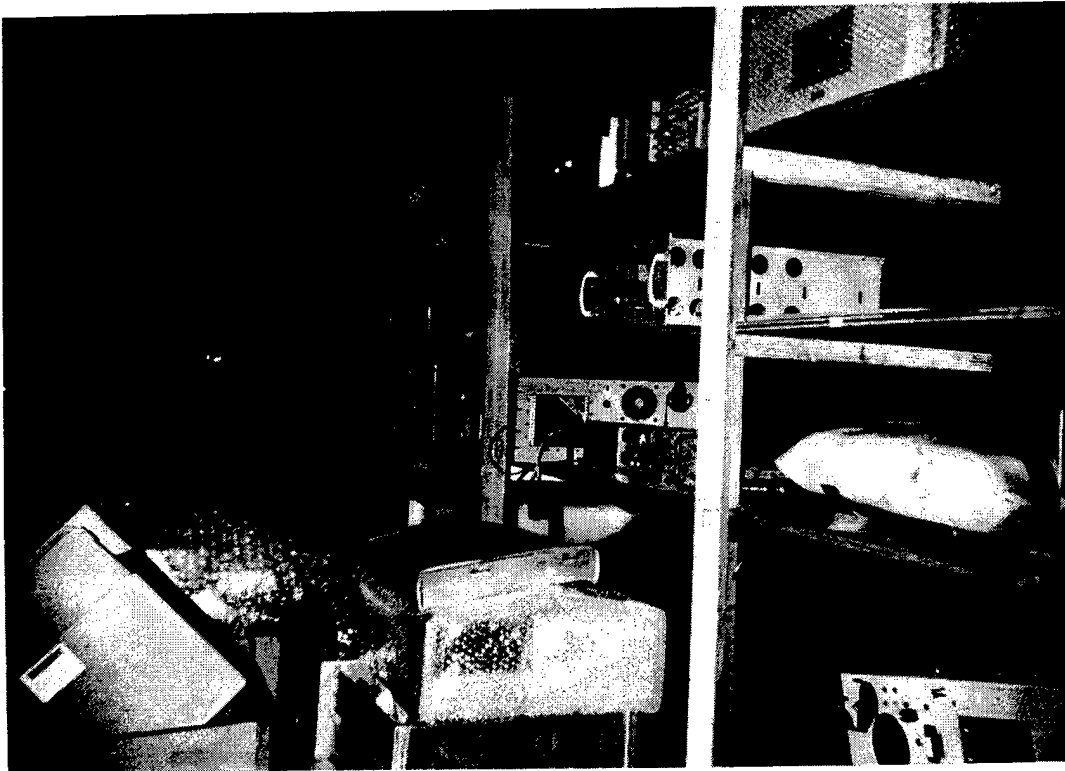
Military installations improperly stocked uncataloged material, valued in excess of \$1 billion. We reviewed available records and observed uncataloged material at six installations that had one or more organizations and sites conducting RDT&E. The installations were Aberdeen Proving Grounds, Maryland; Fort Monmouth, New Jersey; Lakehurst, New Jersey; China Lake, California; Rome, New York; and Wright-Patterson, Ohio. We observed more than incidental instances of dormant uncataloged material at five of the six installations. The installations had accumulated the uncataloged material by acquiring too much material for projects, by reducing the scope of projects, and by salvaging parts from completed projects. However, the installations did not retain records to show why and how long the material was on hand when it should have been fully consumed in performing RDT&E projects.

**Aberdeen Proving Grounds, Maryland.** The installation is host to the Army Aberdeen Test Center, a portion of the Army Research Laboratory; the Army Edgewood Research, Development, and Engineering Center; and the Army National Ground Intelligence Center. Uncataloged ammunition and related products were stored by both the installation and the centers in magazines at secured areas. One of the centers also maintained a warehouse of miscellaneous material. At that center, shelves and location cards were in use; the material was generally stored in a neat manner. Aberdeen Proving Grounds maintained central property accountability records, but without dollar values. Therefore, we asked the material custodians to estimate the dollar amount of uncataloged material assigned to Aberdeen by comparing the material to similar cataloged material. The material custodians estimated that Aberdeen Proving Grounds had \$60 million of uncataloged ammunition material on hand.

**Fort Monmouth, New Jersey.** The installation is host to the Army Communications-Electronics Command. Uncataloged communication and electronic components and parts were stored at two RDT&E areas, Charles Wood and Evans. At the Charles Wood area, a small amount of uncataloged material was locked in several storerooms in the basement of the major RDT&E facility called the Hexagon. The small amount of uncataloged material was identified and consolidated in the storeroom as a result of a one-time, wall-to-wall inspection by a newly-appointed Director of the Research, Development and Engineering Center. In September 1993, the new director toured the laboratory facilities in the Hexagon and had subordinate organizations dispose of excess material. Within 9 months, the subordinate organizations had turned in or transferred to other DoD organizations some \$11.2 million of material. Supply custodians informed us that the material had been on hand for a number of years and would have been there when we arrived had the Director not questioned its need. At the Evans area, at least 257 line items of material were locked in two barrack-sized buildings or kept outside. Shelves and location cards were often not in use. Figure 1 shows shelves of the material heaped in unmarked boxes and crates.

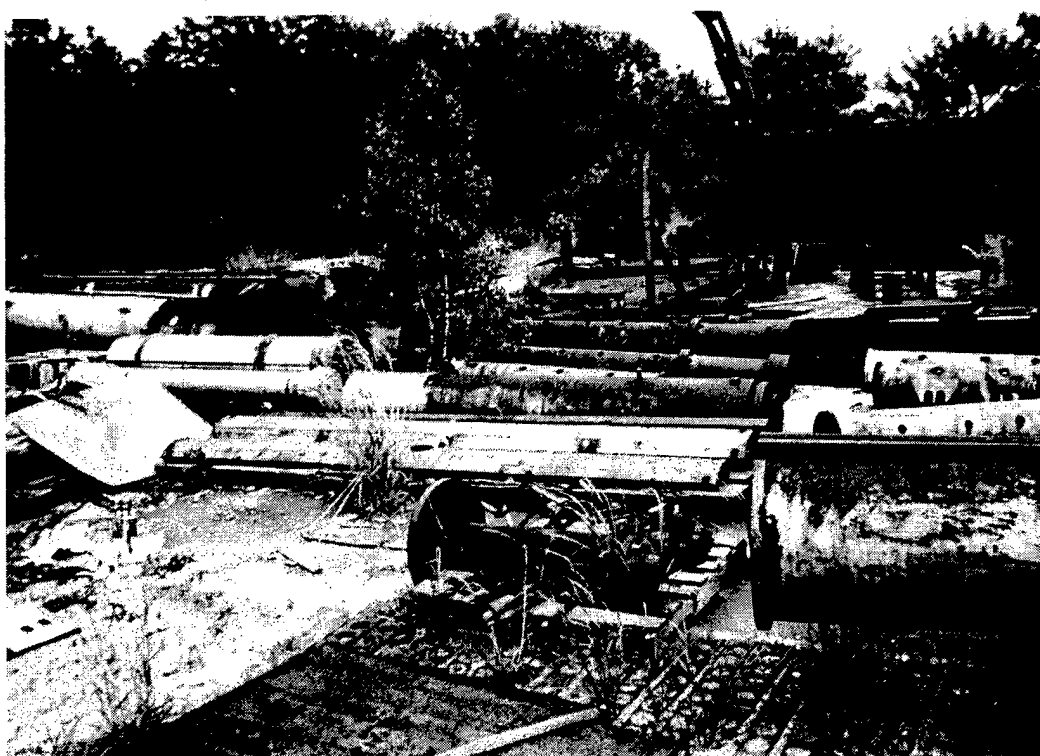
## Stockage of Uncataloged Material

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**Figure 1. Material in Building 9044, Evans Area, Fort Monmouth**

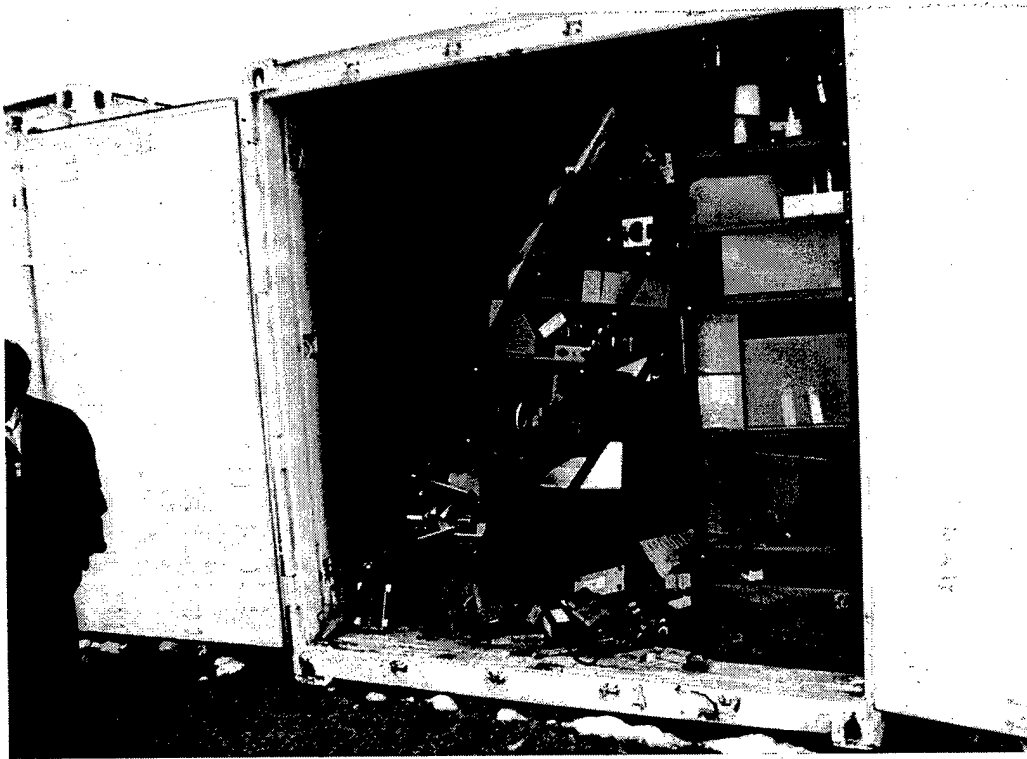
Lakehurst, New Jersey. The installation is host to a portion of the Naval Air Warfare Center - Aircraft Division. Uncataloged avionic components and parts, along with raw materials, were locked in a hangar operated by central supply or kept outside. Shelves and location cards were in use. However, the material was often heaped in unmarked boxes and crates. Figure 2 shows how the material was strewn in fields.



**Figure 2. Material at Outside Storage, Lakehurst**

Of the six installations we reviewed, only Lakehurst maintained inventory records of the quantities and value of uncataloged material on hand. As of June 30, 1996, Lakehurst inventory records listed \$50.5 million of uncataloged material on hand. We inventoried the 25 highest dollar-valued items (total of \$15.3 million) listed in inventory records and could not substantiate \$12.2 million of the material reported on hand. Accordingly, we reduced Lakehurst's listed amount of uncataloged material to \$38.3 million.

**China Lake, California.** The installation is host to the Naval Air Warfare Center - Weapons Division. Uncataloged weapon components and other parts were kept in various locked buildings and outside storage locations. The lack of property accountability records showing quantities and values precluded us from determining, with certainty, the total dollar amount of uncataloged material on hand or recently disposed of. Time did not permit us to visit a representative number of potential storage sites; however, we observed four outside storage areas in remote locations that were referred to locally as "boneyards". The boneyards contained antenna and radar components, missile components, equipment, raw materials, and scrap that had been acquired for projects no longer active. One boneyard was home to nine vans and four trailers filled with Nike project components and equipment. Figure 3 is representative of material observed in one van.



**Figure 3. Material in Van at Nike Boneyard, China Lake**

We visited 50 buildings at China Lake. In four of the buildings, we observed racks of equipment, missile components, and other project materials that had not been used since the 1970s, based on the accumulation of dust and mid-1970 calibration dates on some of the equipment. The exterior of two of the four buildings was marked inactive. Material custodians were not aware that the two buildings contained any equipment or other project materials. Figure 4 is representative of the material we observed.



**Figure 4. Material in Building 11160, China Lake**

**Rome, New York.** The installation is host to the Air Force Rome Laboratory. At two remote sites, uncataloged communication and electronic components and parts were locked in small buildings. Location cards were not maintained; and material was not always labeled, but generally stored on shelves in an orderly manner. Uncataloged items were left over from completed projects or recovered from dismantled projects. The lack of property accountability records showing quantities and values precluded us from determining, with certainty, the total dollar amount of uncataloged material on hand or recently disposed of.

**Wright-Patterson, Ohio.** The installation is host to the Air Force Wright Laboratory for RDT&E. Nominal amounts of uncataloged avionic and electronic components and parts were stored in several buildings. Although we observed no significant number of stocked uncataloged material, as with the Charles Wood area at Fort Monmouth, the absence of uncataloged material on hand was not due to the material being fully consumed but rather to an initiative by a newly appointed installation commander. The installation commander directed Wright Laboratory to reduce outside storage and consolidate operations

## Stockage of Uncataloged Material

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into fewer buildings, thereby forcing the elimination of available storage space and unneeded stocked material. Since the initiative began in 1994, Wright Laboratory has processed more than 10,000 turn-in documents for material and equipment valued at about \$156.1 million.

**Age of Uncataloged Material.** The six installations had accumulated the uncataloged material from RDT&E projects that had been completed from 2 years to 30 years or more. Most of the items we observed had no record of when the material was received and for what project the material was originally earmarked. Contract and project files associated with the material had been disposed of, suggesting that the material had been on hand for at least 2 years. Based on our observations and discussions with material custodians, the material had been on hand for many years. At Fort Monmouth, for example, the material custodian in the Evans area told us that originally the material had been acquired for two long-term projects that had been terminated for at least 3 years. At Aberdeen Proving Grounds, material was on hand that predated World War II.

**Value of Uncataloged Material.** Considering the dollar amounts of material on hand at Aberdeen Proving Grounds and Lakehurst, as well as material disposed of at Fort Monmouth and Wright-Patterson, the six installations we reviewed had a combined total of \$265.6 million of dormant uncataloged material in stock within the last 3 years (see Table 1).

**Table 1. Uncataloged Material in Stock  
Within the Last 3 Years**

<u>Installation</u>	<u>Dollar Amount</u>	
Aberdeen Proving Ground	\$ 60,000,000	<sup>1, 2</sup>
Fort Monmouth	11,200,000	<sup>1, 3, 4</sup>
Lakehurst	38,300,000	<sup>1</sup>
China Lake	no estimate	
Rome	no estimate	
Wright-Patterson	<u>156,100,000</u>	<sup>1, 3</sup>
<b>Total</b>	<b>\$265,600,000</b>	<sup>1, 2, 3, 4</sup>

<sup>1</sup> This amount represents the acquisition value of the material; the actual value would be much less.

<sup>2</sup> Includes only ammunition at Aberdeen Proving Grounds.

<sup>3</sup> This amount includes some dormant cataloged material, which was commingled with uncataloged material and could not be readily distinguished except at Aberdeen Proving Grounds and Lakehurst.

<sup>4</sup> Does not include material at the Evans area.

In addition to our review, the Naval Audit Service identified unneeded and unaccounted for uncataloged material on hand at seven other RDT&E installations during 1996. In Report 027-97, "Management, Control, and Accounting Procedures for Sponsor Material at Naval Sea Systems Command Warfare Centers," April 11, 1997, the Naval Audit Service reported that about \$800 million of uncataloged material acquired for RDT&E projects was excess



at seven Naval Sea System Command Warfare Centers. Because 73 additional installations are engaged in RDT&E work (and there is no reason to believe they have handled uncataloged material any differently than the 13 combined installations that we and the Naval Audit Service reviewed), the amount of unneeded and unaccounted for uncataloged material in stock within the Military Departments easily exceeds \$1 billion (acquisition value, the sales value would be substantially less).

### Need for and Safeguard of Material

Military installations did not fully consume uncataloged material in fabrication and testing, and retained it without any apparent need and without sufficient safeguards.

**Need for Material.** The installations we reviewed kept no records of demands and could not support retention of uncataloged material for ongoing and future projects. Custody of the uncataloged material was held by either a central supply activity or the RDT&E organization. In either case, continued retention of the material in storage was up to the RDT&E organization. Material custodians at central supply organizations generally believed there was no basis for retaining the uncataloged material consigned to them. In contrast, material custodians at RDT&E organizations generally believed that the uncataloged material should be stocked for a future unknown requirement. However, speculation is not a stockage criterion and the need to maintain supply in excess of 30 days was not supported by written justification documentation, as required. Table 2 shows some examples of unneeded, high-dollar valued material being stocked at the Naval Air Warfare Center - Aircraft Division, Lakehurst, New Jersey.

**Table 2. Unneeded High-Dollar-Valued Stock**

<u>Nomenclature</u>	<u>On-hand Quantity</u>	<u>Total Value</u>
Arresting gear kit	72	\$ 443,800
Junction box	9	540,000
Trough covers	7	1,295,000
Upper bar supports	142	685,539

Stocking unneeded material for extended periods is costly and wasteful. Unnecessary storage costs were incurred while the likelihood increased that material would become obsolete and of no use to other potential users.

## Stockage of Uncataloged Material

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**Safeguard of Material.** Most installations we reviewed did not recognize uncataloged material as assets or did not protect it from physical deterioration and misuse. Accordingly, the Military Departments did not follow prescribed DoD accounting policies, which require implementation of adequate controls for accounting for and safeguarding the material.

**Recognizing Material as Assets.** Of the six installations we reviewed, four did not maintain accounting and property accountability records of the quantity and value of uncataloged material on hand. The four installations accounted for the material as an expense or recorded it in memorandum accounts when received, on the assumption that it would be completely used or charged to another organization. However, the material was not completely used and basic accounting information required by volume 4 of the DoD Financial Management Regulation to continuously account for assets from acquisition to disposition was not maintained. Further, the accounting and property records were so deficient as to constitute a material deficiency as defined by volume 1 of the DoD Financial Management Regulation. The installations did not reasonably comply with key accounting requirement 2 by maintaining accounting records of the amount and dollar value of uncataloged material received, issued, and on hand. The installations did not maintain records on how much of the material consisted of fixed assets or material and other operational supplies. By not reasonably complying with key accounting requirement 2, the four installations allowed the accounting for uncataloged material to come under the total control of material custodians. At the Air Force Rome Laboratory, for example, two material custodians told us that no other personnel except them knew what was on hand and that they kept the information in their heads.

At the two installations where property accountability records were maintained, one (Aberdeen Proving Grounds) did not identify values for the material and the other (Lakehurst) did not ensure the accuracy of the values. For example, Lakehurst inventory records listed 263 radiators on hand at a cost of \$3,000 each, but the contractual cost for each radiator was only \$215.30. The inventory records at Lakehurst were so unreliable that its parent headquarters in Patuxent River, Maryland, did not include values for any material on hand at Lakehurst in FY 1996 financial statements. The effect of not correctly accounting for the status of assets, other than to undermine their importance and to understate financial reports and program operating costs, was that it was impossible to determine the quantity and value of uncataloged material that should have been on hand or that was possibly missing.

**Protecting Material From Deterioration and Misuse.** Of the six installations we reviewed, only Aberdeen Proving Grounds took precautions in storing the material. Most of the material was ammunition and was kept in magazines and physically protected from deterioration and misuse. At the other installations, the material was kept largely wherever space was available, in previously vacant buildings; in garages; in unused hangar space; in vans; in laboratory basements; and in open fields. Two installations allowed public access while material was kept unlocked, outside. At two other installations, project personnel were allowed to rummage the inventory and take material as needed without establishing a paper trail and accountability. No records were

maintained of inventories being conducted. Managers of RDT&E operations considered material management incidental to the accomplishment of their missions and placed no emphasis on control and protection of uncataloged material.

### Implementation of Management Controls

The Military Departments did not implement adequate management controls for retaining and safeguarding uncataloged material in stock. DoD Directive 5010.38, "Management Control Program", August 26, 1996, establishes policies and assigns responsibilities for the DoD Management Control Program. According to the Directive, each DoD Component (such as the Office of the Secretary of Defense or a Military Department) shall implement a comprehensive strategy for management controls that provides reasonable assurance that assets are safeguarded against misappropriation, loss, unauthorized use, and waste. The Directive also provides that the Under Secretaries and Assistant Secretaries of Defense, as heads of the Office of the Secretary of Defense functional elements, are to:

- o identify systemic management control weaknesses, including those that cut across areas of functional responsibility or the responsibility of a specific DoD Component.
- o identify management control weaknesses in their functional areas that should be reported by one or more DoD Components.
- o review the reported actions of the DoD Components on the specifications and accomplishment of milestones to correct reported material weaknesses in each functional area.

The Director, Defense Research and Engineering, within the Office of the Under Secretary of Defense for Acquisition and Technology, is the DoD staff principal responsible for RDT&E operations and resources within the Military Departments. However, neither the Director nor the Military Departments implemented a comprehensive strategy for management controls that provided reasonable assurance that uncataloged material was safeguarded against misappropriation, loss, unauthorized use, and waste. Because uncataloged material is to be consumed and not maintained on hand, management at no level within DoD emphasized the establishment of controls over uncataloged material. By regulation, only enough material to support a project should be acquired and it should be fully consumed. In the absence of consumption, the material should be disposed of or, if still needed, retained and safeguarded. Installations regularly elected to stock uncataloged material, but did not establish any policies or procedures to ensure the retention was justified and the material was safeguarded. Instead, the military installations circumvented DoD accounting policy by stocking large amounts of dormant uncataloged material for extended periods and not treating the material as assets that should be protected.

## **Stockage of Uncataloged Material**

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### **Efficient Use of the Material**

The Military Departments need to either ensure that uncataloged material on hand is required locally and can be adequately safeguarded or pursue economies through redistribution, sale, or disposal of the material. Local consumption or redistribution within the Military Departments would make the most efficient use of the material. However, with well over \$1 billion of uncataloged material on hand and much of it dormant for many years, much of the material should be consigned to the Defense Reutilization and Marketing Service for sale to the public. If the material is recyclable, as defined by DoD Instruction 4715.4, "Pollution Prevention," June 18, 1996, then military installations could sell the material directly with the proceeds going to recycling programs; pollution abatement; and morale, welfare, and recreation programs. Proper management of unneeded material will produce monetary benefits for the Military Departments. For example, based on guidance in DoD Regulation 4140.1-R, "DoD Material Management Regulation," January 1993, preservation and warehousing storage costs total about 1 percent of the inventory's value each year. Using that criterion, Aberdeen Proving Grounds alone is incurring \$600,000 a year in storage costs for its estimated \$60 million of uncataloged material on hand.

### **Management Comments on the Finding and Audit Response**

Although not required to comment, the Army provided the following comments on the finding. For the full text of the Army comments see Part III.

**Army Comments.** The Deputy Assistant Secretary of the Army for Combat Service Support provided written comments. The Army stated that accountability of items mentioned in the report was important and that systems and controls were in place that provide accountability. The Army provided details on its management controls for uncataloged material at the U.S. Army Test and Evaluation Command, U.S. Army Communications-Electronics Command, and the U.S. Army Research Laboratory. The U.S. Army Communications-Electronics Command disposed of or transferred the excess material cited in the report (all of the \$11.2 million of excess material cited in the report was turned in or transferred). Additionally, in 1995, it corrected the material control weakness that had been reported in 1993. The Army plans to assign a management control number to RDT&E munitions that have not been assigned a national stock number before issuing an RDT&E purchase request. This added procedure should improve accountability by including the unit price of the material in Army records.

**Audit Response.** The corrective actions the Army took to eliminate excess material was commendable. Although the Army had corrected the material control weakness at the Army Communications-Electronics Command, we included the \$11.2 million in excess material in the report to emphasize the significant value of material that could accumulate without adequate controls.

The actions taken by the Army provided cost information that was not available at other RDT&E centers. The Army's planned actions to collect unit price data for uncataloged material and to dispose of or transfer excess material should improve the management controls at the Army organizations cited in the report.

## Recommendations for Corrective Action

1. We recommend that the Under Secretary of Defense (Comptroller) direct the Military Departments to comply with volumes 1 and 4 of the DoD Financial Management Regulation by protecting and recording, controlling, and reporting uncataloged material as assets; and until reasonable compliance is attained, disclose on annual financial statements the accounting weaknesses and potential impact.

**Office of the Under Secretary of Defense Comments.** Comments from the Office of the Under Secretary of Defense (Comptroller) on a draft of this report were received too late to be considered in preparing the final report. The Office of the Under Secretary generally agreed to direct the Military Departments to comply with volumes 1 and 4 of the DoD Financial Management Regulation. We will consider the comments received as the response to the final report, unless further comments are received.

2. We recommend that the Director, Defense Research and Engineering, in coordination with the Military Departments:

a. Determine the amount of uncataloged material on hand at research, development, test, and evaluation organizations and substantiate whether the material is needed for planned research, development, test and evaluation work. Based on whether the material is needed, the Military Departments should:

(1) Record the material as assets in proper subsidiary and general accounts and report totals in annual financial statements;

(2) Enter the material as assets in appropriate property accountability records;

(3) Dispose of the material through the Defense Reutilization and Marketing Service, if not recyclable; or

(4) Sell the material locally and retain the proceeds, if recyclable.

b. Establish adequate management controls to ensure that uncataloged material placed in stock is needed and safeguarded; and ensure that it does not accumulate in significant amounts for extended periods.

## **Stockage of Uncataloged Material**

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**Management Comments Required.** The Director, Defense Research and Engineering, did not comment on a draft of this report. We request that the Director, Defense Research and Engineering provide comments on the final report.

## **Part II - Additional Information**

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## **Appendix A. Audit Process**

### **Scope and Methodology**

We evaluated the propriety of the Military Departments' stocking of uncataloged material at RDT&E installations. We judgmentally selected the installations because a statistical basis did not exist. Each Military Department was represented, with consideration given to location and FY 1995 local purchasing activity, as reported on DD Form 1057, "Monthly Contracting Summary of Actions \$25,000 or Less." We also considered and eliminated installations covered by related reviews of the Military Department audit agencies. From a universe of 86 installations, we selected 2 installations from each of the Military Departments for our evaluation.

At each of the installations, we reviewed accounting and inventory records, as available, to determine the quantity and dollar value of material on hand. The only available records were at Aberdeen Proving Grounds and Lakehurst. Inventory records at Aberdeen Proving Ground were as of September and October 1996. Accounting and inventory records at Lakehurst were as of June 1996. We also used available accounting and inventory records to select the 25 highest total dollar-valued items as a basis for determining the accuracy of reported amounts, how long the material was on hand, and the adequacy of safeguards. In the absence of accounting and inventory records, we visited individual buildings searching for and observing uncataloged material on hand and were limited to determining the adequacy of safeguards. We determined the value of and how long material was on hand and whether it should be retained, based on questionnaires we provided to and discussions we held with material custodians and project personnel at central supply and RDT&E organizations.

**Use of Computer-Processed Data.** We verified information sampled from computer-processed accounting and inventory records, where available, to actual on-hand quantities. The only available records were at Aberdeen Proving Grounds and Lakehurst. Data tests showed that inventory record at Aberdeen Proving Grounds were reliable as to quantities but lacked dollar values. Data tests showed that accounting and inventory records at Lakehurst were unreliable. However, when those records are considered in context with other evidence available at the six installations reviewed, we believe the opinions, conclusions, and recommendations in this report are valid.

**Audit Period and Standards.** This economy and efficiency audit was made from April 1996 through January 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.



## Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Control Program.** We reviewed the adequacy of the Military Departments' management controls over the stockage of uncataloged material. Specifically, we determined whether the Military Departments fully consumed uncataloged material on RDT&E projects as required and, if not, whether they justified retention and established sufficient safeguards for leftover stocked material.

**Adequacy of Management Controls.** We identified material management control weaknesses for the Military Departments as defined by DoD Directive 5010.38. The Military Departments' management controls for stockage of uncataloged material did not provide sufficient safeguards and were not adequate to determine the value of and how long the material was on hand and whether it should be retained. All recommendations in this report, if implemented, will help ensure that uncataloged material is either disposed of or if still needed, adequately safeguarded. We could not determine the amount of potential monetary benefits because of unknown future requirements and other uncertain factors. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Secretary of Defense and in the Army, the Navy, and the Air Force.

**Adequacy of Management's Self Evaluation.** The Military Departments did not identify stockage of uncataloged material as an assessable unit and, therefore, did not identify the material management control weaknesses identified by the audit.

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## **Appendix B. Summary of Prior Audits and Other Reviews**

The General Accounting Office; the Inspector General, DoD; and the audit organizations of the Military Departments have made several reviews in the past 5 years that have addressed aspects of stocking uncataloged material.

### **General Accounting Office**

**General Accounting Office Report HR-95-5, "Defense Inventory Management," February 1995.** The report concluded that \$36.3 billion of the \$77.5 billion of inventory that DoD had on-hand as of September 1993 was not needed to support the DoD war reserve or current operating equipment. The General Accounting Office stated that DoD did not have adequate oversight of its inventory, that its financial accountability was weak, that its requirements were overstated, and that modern commercial practices were not aggressively implemented. The report made no recommendations.

**General Accounting Office Report NSIAD-94-8 (OSD Case No. 9542), "Base Maintenance Inventories Can Be Reduced," December 15, 1993.** The report stated that the Air Force did not effectively manage bench stocks and had excessive amounts of stock on hand. The Air Force was buying new items because it was not aware that some items were already on hand. The report recommended that all on-hand items be considered before acquiring new stock and that excess items be disposed of. DoD concurred with the recommendations and directed the Air Force to take appropriate actions.

**General Accounting Office Report NSIAD-92-216 (OSD Case No. 9079), "Excess Inventory at Naval Aviation Depots," July 22, 1992.** The report stated that contrary to Navy guidance, the depots generated and retained large inventories of excess material for many years. The report recommended that unrecorded material be identified, returned to inventory control, and not be allowed to accumulate. The Navy concurred with the recommendations.

### **Inspector General, DoD**

**Inspector General, DoD, Report No. 95-261, "Accountability and Control of Materials at the San Antonio and Warner Robins Air Logistics Centers," June 29, 1995.** The report stated that the Centers had unrecorded materials on hand. Also, the Centers used funds to buy materials to meet requirements that could have been satisfied with the unrecorded materials. The report recommended that all unrecorded material be identified and local procedures be issued for managing maintenance materials. The Air Force concurred with the recommendations.

**Inspector General, DoD, Report No. 94-117, "Accountability and Control of Materials at Army Depots," June 3, 1994.** The report stated that the Army maintained excessive inventory levels of material at Army depot maintenance facilities and that two of those facilities had inadequate accountability and control of the materials. The report recommended that revised guidance be issued concerning stockage levels of materials at depot maintenance facilities, that unused material be removed from storage, and that the depots perform quarterly reviews of materials stored at the facilities. The Army concurred with the recommendations.

### **Naval Audit Service**

**Naval Audit Service Report 027-97, "Management, Control, and Accounting Procedures for Sponsor Material at Naval Sea Systems Command Warfare Centers," April 11, 1997.** The Naval Audit Service reported that about \$1.5 billion of material acquired for RDT&E projects was excess at the Naval Sea Systems Command Warfare Centers. About \$800 million of the \$1.5 billion was uncataloged material. The Naval Audit Service attributed the excess material to the Navy permitting the use of sponsor-provided material at the Centers. The report recommended that inventory management of sponsor-provided material be transferred to the Naval Supply Systems Command for use or disposal, that Naval Sea Systems Command implement policy to reduce the amount of material stored at its organizations, and that the Naval Supply Systems Command establish effective material management, control, and accounting rules for sponsor material. The Navy concurred with all the recommendations and was taking corrective actions.

### **Air Force Audit Agency**

**Air Force Audit Agency Audit Report, Project 95061024, "Noncataloged Depot Item Management," February 16, 1996.** The Air Force Audit Agency reported that an estimated \$7.6 million of uncataloged material acquired for maintenance projects was excess at four air logistics centers. The report recommended that internal control procedures be developed to ensure that only qualified noncataloged depot numbers be assigned and retained. The Air Force agreed with the recommendations.

**Air Force Audit Agency Report, Project 93415040, "Management of Noncataloged Depot Items, Sacramento Air Logistics Center," August 27, 1993.** The Air Force Audit Agency reported that the Sacramento Air Logistics Center did not have adequate control over the assignment of noncataloged depot numbers to items acquired for maintenance projects. The report recommended that control over the assignment of noncataloged depot numbers be established and that noncataloged items on hand either be verified as needed and cataloged or disposed of. The Air Force concurred with the recommendations.

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Logistics)  
Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management)  
Deputy Under Secretary of Defense (Industrial Affairs and Installations)  
Director, Defense Research and Engineering  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Under Secretary of Defense (Policy)  
Assistant Secretary of Defense (Public Affairs)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Research, Development and Acquisition)  
Assistant Secretary of the Army (Installations, Logistics, and Environment)  
Director of the Army Staff  
Deputy Chief of Staff for Logistics  
Auditor General, Department of the Army  
Commander, Army Materiel Command

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Assistant Secretary of the Navy (Research, Development and Acquisition)  
Deputy Chief of Naval Operations (Logistics)  
Commander, Naval Air Systems Command  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Deputy Assistant Secretary of the Air Force (Science, Technology, and Engineering)  
Deputy Chief of Air Force Staff (Logistics)  
Commander, Air Systems Command  
Auditor General, Department of the Air Force

## **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Logistics Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

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## **Part III - Management Comments**

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH DEVELOPMENT AND ACQUISITION  
103 ARMY PENTAGON  
WASHINGTON DC 20310-0103

REPLY TO  
ATTENTION OF

SARD-ZCS

10 MAY 1997

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,  
400 ARMY NAVY DRIVE, ARLINGTON, VA  
22202-2884

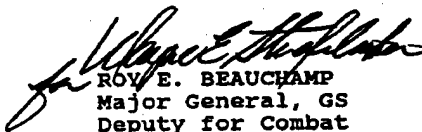
SUBJECT: Audit Report on Uncataloged Material at Research,  
Development, Test, and Evaluation Installations (Project No. 5LD-  
5020)

Reference memorandum, HQDA, SAAG-PMF-E, 28 March 1997,  
subject as above.

We have reviewed the report and concur that accountability of  
items mentioned by the auditors is important. We believe that  
systems and controls are in place that provide accountability.

Detailed comments on the subject report from our audited  
activities - U.S. Army Test and Evaluation Command, U.S. Army  
Communications-Electronics Command and U.S. Army Research  
Laboratory - are enclosed to represent the Army position.

The point of contact for this action is Mr. Emmanuel Nidhiry,  
(703) 767-5809.

  
ROY E. BEAUCHAMP  
Major General, GS  
Deputy for Combat  
Service Support

Enclosures



## Department of the Army Comments



DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY TEST AND EVALUATION COMMAND  
ABERDEEN PROVING GROUND, MARYLAND 21505-5055



REPLY TO  
ATTENTION OF

AMSTE-IR (36-2b)

28 APR 1997

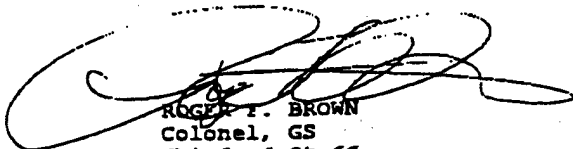
MEMORANDUM FOR Commander, U.S. Army Materiel Command, ATTN:  
AMCIR-A, 5001 Eisenhower Avenue, Alexandria,  
VA 22333-0001

SUBJECT: DODIG Draft Report, Uncataloged Material at Research,  
Development, Test and Evaluation Installations (AMC No. D9627)

1. Reference memorandum, HQ AMC, AMCIR-A, 8 Apr 97, SAB.
2. Command comments to subject report are enclosed.
3. The TECOM technical point of contact is Mr. Robert Formica,  
HQ TECOM Senior Ammunition Manager, AMSTE-SM-LA,  
rformic@tecl.apg.army.mil, DSN 298-1120. The TECOM Internal  
Review point of contact is Ms. Marian Hodge, AMSTE-IR,  
mhodge@apg-9.apg.army.mil, DSN 298-4556.

FOR THE COMMANDER:

Encl

  
ROGER P. BROWN  
Colonel, GS  
Chief of Staff

U.S. ARMY TEST AND EVALUATION COMMAND

COMMAND COMMENTS

DODIG Draft Report, Uncataloged Material at Research,  
Development, Test and Evaluation Installations

1. Specific References.

Page 10, paragraph titled "Value of Uncataloged Material." The \$60 million value provided by the U.S. Army Garrison, Aberdeen Proving Ground represented the total estimated value of all non-standard material held in the Garrison account, not the value of "dormant" non-standard material. The vast majority of non-standard ammunition items held at Aberdeen Proving Ground (APG) were not acquired by the Garrison or its customers. Most items are requisitioned by project managers at ARDEC, TACOM, INSCOM, etc. and sent to APG for testing or research. If the dollar value is provided at the time of receipt, it is entered into the accountable records. If the value is not provided, APG has no means of assessing an accurate dollar value for material that was not procured by this installation.

Page 14, paragraph titled "Efficient Use of the Material." There is no correlation between the value of an ammunition item and the storage cost for that item. The total FY 96 cost for all standard and non-standard Garrison storage services was \$389,075.87. This in no way supports the audit report figure of \$600,000 a year storage cost for uncataloged inventory alone.

2. General Comments. When the auditors visited APG, they requested information on non-standard items. Therefore, all APG furnished information pertains to non-standard items, not uncataloged items.

The audit report states that an estimated \$60 million of ammunition at APG is uncataloged. No ammunition at APG is uncataloged. RDTE munitions lacking National Stock Numbers are assigned Management Control Numbers (MCN) which are assigned by the MCN database contained within the TECOM Integrated Ammunition Management System (TIAMS). This is in accordance with AR 708-1, paragraph 2-2b which states:

"...MCNs assigned by the U.S. Army Test and Evaluation Command (TECOM) are used to permanently identify experimental munitions and related items, regardless of the installation or activity where stored or used. The assigned MCN remains valid until one of the following occurs: (1) All stocks are expended or demilitarized, or (2) An NSN (National Stock Number) is assigned to the item."

Consequently, all munitions stored at APG are cataloged. RDTE items are cataloged in the MCN system or in accordance with the cataloging policy that preceded the creation of TIAMS. The older items are to be re-cataloged if they are moved to another installation. Essential catalog elements are maintained for all ammunition items at APG.

The MCN assignment system is under review by the DOD Environmental Security Corporate Information Management (DESCIM) workgroup for adoption as a DOD-wide system. The majority of the RDTE ammunition within the Army is stored at TECOM test centers and is already under our existing procedure.

Our cataloging system does not require the use of a unit price. Decisions on ammunition management are based on explosive safety and security considerations. Obtaining and processing dollar value information for older material is difficult and does not provide sufficient value to justify the cost. The appropriate time to obtain this data is when the RDTE customer orders the ammunition. In the future, we will request that the MCN be obtained prior to issuance of the RDTE purchase request. This should result in a more complete catalog record to include unit price.

The majority of ammunition at APG is held for our tenants and their customers. When these customers determine that an item is no longer required, they report it to the ammunition officer as excess to current requirements. This ammunition is then processed for reuse by other RDTE activities within DOD. If no other current requirement is identified for the material, a decision is made to hold the item for possible future use or initiate disposal action.

Excess ammunition is processed via the RDTE Excess Ammunition Clearing House (REACH). This is a database operated jointly by TECOM and the Defense Ammunition Center. All ammunition with the potential for reuse must be screened for possible reuse prior to initiating disposal action.

In summary, all ammunition used in our RDTE programs is cataloged on official records, and evaluated for retention or disposal action. Our MCN and REACH systems were designed for use DOD-wide and are available now. We continue to work with our customers to improve the total process and reduce ammunition management costs.

## Department of the Army Comments

AMSEL-IR (AMCRDA-TL/8 APRIL 1997) (36-2b) 1<sup>st</sup> End Mr. Riley/DSN 987-4114  
SUBJECT: Audit Report on Uncataloged Material at Research, Development, Test and  
Evaluation Installations (Project No. 5LD-5050)

Commander, U.S. Army Communications-Electronics Command and Fort Monmouth,  
ATTN: AMSEL-IR, Fort Monmouth, NJ 07703-5028 24 April 1997

FOR CDR, U.S. Army Materiel Command, ATTN: AMCRDA, 5001 Eisenhower  
Avenue, Alexandria, VA 22333-0001

1. Command comments on the subject proposed audit report by the Department of  
Defense Inspector General (DODIG) are shown in Enclosure 2.
2. Point of Contact is Mr. John E. Riley, AMSEL-IR, DSN 987-4114, E-Mail: AMSEL-  
IR@CECOM3.MONMOUTH.ARMY.MIL
3. CECOM Bottom Line: THE SOLDIER.

2 Encls  
w/ encl 1  
Added 1 encl  
2. as

  
PATRICK T. THORNTON  
Colonel, GS  
Chief of Staff

Department of the Army Comments



DEPARTMENT OF THE ARMY  
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND  
3001 EISENHOWER AVENUE, ALEXANDRIA, VA 22333-0001

REPLY TO  
ATTENTION OF

S: 18 Apr 97

AMCRDA-TL

8 Apr 97

MEMORANDUM FOR

MAJOR GENERAL JOHN E. LONGHOUSER, COMMANDER, U.S. ARMY TEST AND  
EVALUATION COMMAND, ABERDEEN PROVING GROUND, MD 21005-5055

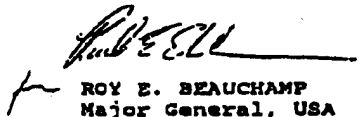
MAJOR GENERAL GERARD P. BROHM, COMMANDER, U.S. ARMY  
COMMUNICATIONS-ELECTRONICS COMMAND, FORT MONMOUTH, NJ  
07703-5000

SUBJECT: Audit Report on Uncataloged Material at Research,  
Development, Test and Evaluation Installations (Project No. SLD-  
5020)

1. Reference memorandum, SAAG-PMF-E, 26 Mar 97, subject as above.
2. Referenced memorandum and the draft of the proposed audit report by the Inspector General of the Department of Defense is forwarded for your review and comments.
3. Please provide your comments to me no later than 18 Apr 97 for a U.S. Army Materiel Command consolidated response.
4. My Point of Contact for this action is Mr. Emmanuel Nidhiry, AMCRDA-TL, DSN 767-5809, commercial (703) 617-5809, E-mail: enidhiry@hqamc.army.mil.
5. AMC -- America's Arsenal for the Brave.

FOR THE COMMANDER:

Encl  
as

  
ROY E. BEAUCHAMP  
Major General, USA  
Deputy Chief of Staff  
for Research, Development  
and Acquisition

CF:  
AMCIR (Mr. Kurzer)

COMMAND REPLY

DODIG Draft Audit Report: Uncataloged Material at Research, Development, Test and Evaluation Installations

**FINDING SUMMARY.** The Military Departments improperly stocked well over \$1 billion of uncataloged material for RDT&E work. We visited two installations from each of the Military Departments and found uncataloged material on hand for 2 to more than 30 years; the material had not been consumed by fabrication and testing work and was retained without apparent need and sufficient safeguards. The large accumulation of improperly stocked material occurred because the Military Departments did not follow prescribed DoD accounting policies, which require that adequate management controls be implemented for retaining and safeguarding needed assets and for disposing of excess material. As a result, storage and obsolescence costs were incurred unnecessarily, and assets worth millions of dollars were left off financial statements and not adequately protected.

**REPORT TEXT PERTAINING TO FORT MONMOUTH AND THE COMMUNICATIONS-ELECTRONICS COMMAND (CECOM):** Fort Monmouth, New Jersey. The installation is host to the Army Communications-Electronics Command. Uncataloged communication and electronics components and parts were stored at two RDT&E areas, Charles Wood and Evans. At the Charles Wood area, a small amount of uncataloged material was locked in several storerooms in the basement of the major RDT&E facility called the Hexagon. The small amount of uncataloged material was identified and consolidated in the storeroom as a result of a one-time, wall-to-wall inspection by a newly-appointed Director of the Research, Development and Engineering Center. In September 1993, the new director toured the laboratory facilities in the Hexagon and had subordinate organizations dispose of excess material. Within 9 months, the subordinate organizations had turned in or transferred to other DoD organizations some \$11.2 million of material. Supply custodians informed us that the material had been on hand for a number of years and would have been there when we arrived had the Director not questioned its need. At the Evans area, at least 257 line items of material were locked in two barrack-sized buildings or kept outside. Shelves and location cards were often not in use. Figure 1 (a picture entitled "Material in Building 9044, Evans Area, Fort Monmouth) shows shelves of the material heaped in unmarked boxes and crates.

**Additional Facts.** The following comments are submitted for accuracy and objectivity.

- a. **Charles Wood Area excess material.** Concur that excess material, originally costing about \$11.2 million, accumulated in the Charles Wood area by September 1993. CECOM reported this to the Army Materiel Command in FY 93 as a material internal control weakness. As a result of the Director's tour, some of the material was transferred to other activities and the remainder was turned into the supply system in FY 94. In FY 95 additional

Internal management controls were put in place which corrected the weakness. The correction was also reported to the Army Materiel Command in FY 95. The DoDIG was told of the \$11.2 million of excess and the subsequent transfers and turn-ins during their tour of Fort Monmouth in 1<sup>st</sup> quarter FY 97. CECOM questions why this reported weakness would be included in the scope of their 1998 audit when the weakness occurred three years prior, and the correction of the weakness occurred one year prior, to the DoDIG review. Inclusion of this weakness in a 1997 report appears to be inappropriate. Furthermore, the report failed to give credit to CECOM that the weakness had been reported and corrected.

- b. Evans Area excess material. Concur that building 9044 in the Evans Area had excess material stored in it at the time of the DoDIG review, i.e., 1<sup>st</sup> quarter FY 97. The building was used as a holding area, by Program Managers and by a CECOM RDT&E activity, primarily for items which were transferred from the Sacramento Army Depot when it closed. The items were for the Guardrail and Advanced Quicklook programs which are supported by Fort Monmouth. Since the DoDIG review, the majority of the items were turned-in to depots. Some of the items, reels of cable, were transferred to another building in the Evans Area because they were deemed usable by another program. Some of the items, radiation detectors, were transferred to the Radiac Team at Fort Monmouth to be distributed to Army users worldwide. The radiation detectors were not sent to a depot because the depot intended to discard them. Some of the items, radar pods, are required to be destroyed before disposal for security reasons. A contractor is in the process of destroying the radar pods which remain in the building. All other items which were in the building were disposed of.

In addition, it should be noted that the Evans Area will be closed by the end of FY 1997 due to a BRAC decision. All materials stored in the area are being reviewed for disposal or turn-in and possible reuse as excess material.

## Department of the Army Comments



REPLY TO  
THE ATTENTION OF

DEPARTMENT OF THE ARMY  
UNITED STATES ARMY RESEARCH LABORATORY  
2800 POWDER MILL ROAD  
ADELPHI, MARYLAND 20783-1197

24 APR 1997

AMSRL-IR (36-2b)

MEMORANDUM FOR Commander, U.S. Army Materiel Command,  
ATTN: AMCIR-A, 5001 Eisenhower Ave,  
Alexandria, VA 22333-0001

SUBJECT: DODIG Draft Report, Uncataloged Material at Research, Development, Test and  
Evaluation Installations (AMC No. D9627)

1. Reference, memorandum, HQ AMC, AMCIR-A, 8 Apr 97, SAB.
2. The above reference requested ARL's review and comments on the allegations of uncataloged material at APG, and if sufficient evidence exists to report a material weakness. ARL was not cited in the report; however, uncataloged material was found at APG. ARL's comments to the subject report are enclosed.
3. Point of contact for this audit is the undersigned, DSN 290-1498.

FOR THE DIRECTOR:

Encl

*Robert P. Davis*  
ROBERT P. DAVIS  
Chief, Internal Review and  
Audit Compliance Office





REPLY TO  
THE ATTENTION OF

DEPARTMENT OF THE ARMY  
U.S. ARMY RESEARCH LABORATORY  
ABERDEEN PROVING GROUND, MARYLAND 21005-5066



AMSRL-CS-AP

22 April 1997

MEMORANDUM FOR AMSRL-IR (ATTN: MR. Bob Davis)

SUBJECT: DODIG Draft Report, Uncataloged Material at Research, Development, Test and Evaluation Installations (AMC No. D9627).

1. Comments applicable to Ammunition and Explosives stored by Aberdeen Proving Ground Garrison Ammunition Supply for the Army Research Activity are as follows. Most stocks stored are nonstandard items that have specific research related purpose. It is natural that the stocks are not cataloged in the conventional sense of standard Army Ammunition and Explosives (A&E). Additionally inventory control points should not be in the business of redistributing nonstandard A&E because of the safety issues involved. The Army Research Laboratory has spent considerable effort to ensure stocks are retained based on need. All 1200 lines have been reviewed twice during this fiscal year with complete justifications built to ensure stocks are not retained for invalid reasons. Cost factors have driven the need for these reviews.
2. Stocks can not always be identified specifically to a project. Certain types of A&E are held for base line establishment and are continually used to compare data against established standards and new emphasis research. Within the Army Research Laboratory the cost is the driving factor for retention versus disposal/excess.
3. All lines retained for ARL are cataloged in two standard Army systems that will not allow entry without catalog data. APG Garrison utilizes the Standard Depot System (SDS) to manage A&E stocks. Closed loop procedures are employed when items are issued to ARL. ARL maintains an internal closed loop system through the Defense Property Accountability System (DPAS) which also requires catalog data to be entered before inventory can be established. Comments made in draft that mention non-cataloged items are not correct.
4. Cost data within the systems cannot be given for all items. True developmental items shipped from various sources do not always come with an accurate cost. For example foreign military ammunition will be very difficult to price when one considers the possible sources or acquisition.
5. Total ammunition and explosives management within the ARL complex have been significant over the past three years. The control and oversight has been appropriate. A process action team

## Department of the Army Comments

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**continues to improve and look for cost reduction areas. Maintaining support to Army customers must be considered when making decisions on remaining stocks .**

*Richard L. Hughes*  
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Site Operations Director

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